

January 31, 2000

David S. Guzy, Chief  
Rules and Publications Staff  
Minerals Management Service  
P. O. Box 25165, Mail Stop 3660  
Denver, Colorado 80225 - 0165

**SUBJECT:** Supplementary Proposed Rulemaking Establishing Oil Value for Royalty  
Due on Federal Leases

Dear Mr. Guzy,

Following are comments on the proposed oil valuation for royalty due on federal  
land rules:

- If a company sells a pipeline for a profit, the rule should incorporate a basis for recapturing depreciation by the owner of a transportation system (pipeline) before it changes ownership and is placed on a new depreciation schedule as proposed by your changes to calculation of actual transportation cost under **§206. 11(g)**.
- We supports the existing rule which uses the Standard and Poor's Industrial BBB bond rate as an allowable rate of return on capital investment for producers who transport oil through their own pipelines under CFR 206.157(b) (2) (v). The rate of return based on multiples of the Standard and Poor's BBB bond rate, such as 1.5 times or 2 times the BBB bond rate does not appear to be warranted by the risk incurred in today's market.
- We support the current regulation that does not allow a lessee to claim any depreciation or return on capital once a pipeline is fully depreciated.

If you have any questions please contact F. David Loomis, at (303) 355-0400 Ext.  
777.

Sincerely,  
Mineral Audit Section

F. David Loomis  
Manager